

% of Total FY 2004 General Fund: 4.11%

Reasons For Historical Changes:

• Tax Changes

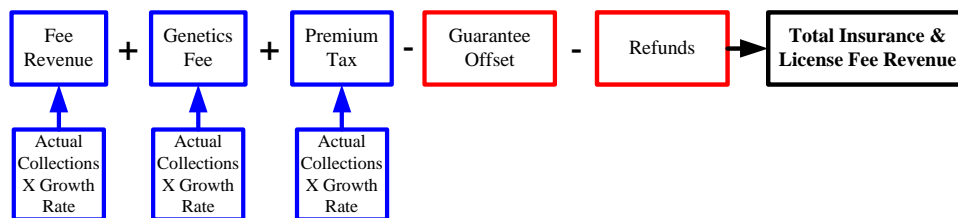
Revenue from various fees has undergone a number of cycles of de-earmarking to the general fund and earmarking back again to the state special revenue account.

- Fiscal 1986 - The 1985 legislature (House Bill 759, Chapter 391) created an insurance regulatory trust account and deposited all insurance fees and charges to the trust.
- Fiscal 1988 - The large revenue spike was due to the passage of House Bill 880 (Chapter 622) by the 1987 legislature that amended 33-2-705, MCA. This legislation gave rule-making authority to the Insurance Commissioner to provide for quarterly payment of the tax. Thus, collections were accelerated by two quarters in fiscal 1988 and dropped to a normal collection pattern in fiscal 1989. This legislation changed the tax rate percentages that had varied between 2.75% and 0.75% based on the amount of assets invested in Montana securities to the current uniform percentage tax rate of 2.75%.

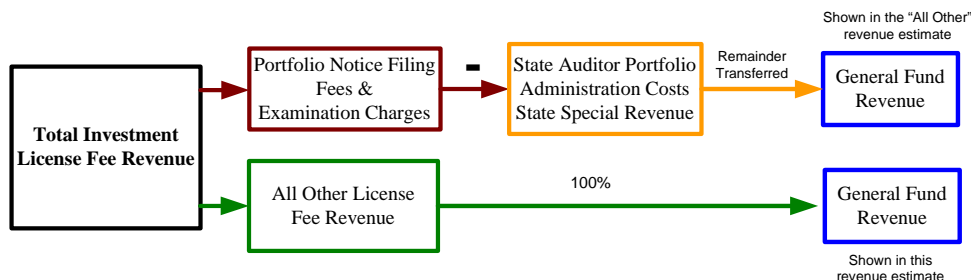
- Fiscal 1990 - In 1989, the legislature enacted Senate Bill 78 (Chapter 351) that de-earmarked all fees and charges to the general fund.
- Fiscal 1993 - In July 1992, the legislature in special session implemented a 7% surcharge on all taxes (House Bill 44, Chapter 15), including the insurance premium tax, the proceeds from which were deposited to the general fund. The surcharge for this tax was effective from August 14, 1992 through June 30, 1993 and increased collections in fiscal 1993.
- Fiscal 1992 - The tax on the fire portion of enumerated risks (50-3-109, MCA) was increase from 0.75% to 1.0% in House Bill 809 (Chapter 703) by the 1991 legislature.
- Fiscal 1998 - The 1997 legislature combined the 1.5% tax in 19-18-606, MCA, with the 1.0% tax in 50-3-109, MCA, and repealed 19-18-606, MCA (House Bill 169, Chapter 532). House Bill 169 also de-earmarked the combined 2.5% tax from the state special revenue fund to the general fund, causing an increase in the general fund portion of the insurance tax revenue beginning in fiscal 1998.

- Fiscal 2000 & 2001- With the enactment of Senate Bill 132 by the 1999 legislature (Chapter 316), all insurance fees were again earmarked and deposited to the state special revenue fund. The legislation also removed most of the various insurance fees and replaced them with a \$1,900 flat fee and established new course review fees.

Forecast Methodology



Distribution Methodology



Legislative Fiscal Division



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LFD Mission Statement

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LEGISLATIVE FISCAL DIVISION

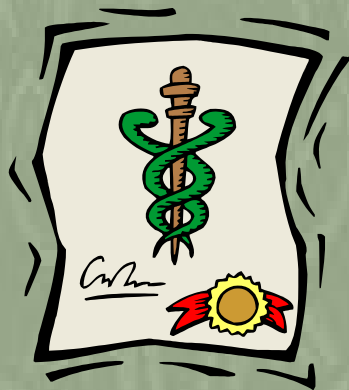


Taxes in Brief...

Insurance Tax & License Fees

November 2004

Fiscal Pocket Guide



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Revenue and Taxation Policy
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Insurance Tax & License Fees

Revenue Description:

The insurance premiums tax is levied on the net premiums or gross underwriting profit for each insurance company operating in Montana. Gross underwriting profit is essentially insurance premium income. In addition, various insurance fees and licenses are also collected.

Applicable Tax Rate(s):

The current tax rate is 2.75% of net premiums (including cancellation and return premiums) on policies sold in Montana. In addition to this tax, there is a 2.5 % tax on the fire portion of net premiums for selected risks. For each Montana resident insured under any individual or group disability or health insurance policy, all insurers are required to pay \$0.70 to the State's Insurance Commissioner. This fee is used to fund the voluntary statewide genetics program established in statute (50-19-211, MCA). Senate Bill 132 (passed by the 1999 legislature) eliminated many disparate fees on insurance companies, which had partially been deposited into the general fund, and replaced them with a single company annual fee of \$1,900. Revenue from this fee is deposited to the state special revenue fund for administration of insurance activities.

Distribution:

Insurance tax proceeds from the tax on surplus lines premiums, net premiums, captive insurance company premiums, and fire insurance premiums are deposited into the general fund along with genetic fee revenue. License fees and the 1% stamping fee on surplus lines insurance premiums are deposited into the state special revenue fund for use by the State Auditor.

Collection Frequency:

Quarterly & Annually

Major Drivers:

- Number of insurance policies sold
- Amount of premiums
- Tax and fee rates

Statutory Reference:

Tax Rate (MCA) – 33-2-705(2), 33-2-311, 33-28-201(1&2), 50-3-109(1)

Fee Rate (MCA) – 33-2-708(1&2), 33-14-201(2), 33-2-712

Tax Distribution (MCA) – 33-2-708(3), 33-2-712, 50-3-109(1)

Date Due – March 1st each year (33-2-705(1), 33-2-712, 33-28-201(1&2)). Quarterly payments due the 15th of April, June, September, and December (Administrative Rules 6.6.2704, 6.6.2705)

